

**BOARD OF SUPERVISORS****BUDGET ANALYST**

1390 MARKET STREET, SUITE 1025

SAN FRANCISCO, CALIFORNIA 94102 • TELEPHONE (415) 554-7642

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UNIVERSITY OF CALIFORNIA

TO: Each Member of the Board**FROM:** Budget Analyst**SUBJECT:** Proposed Amendments to Candlestick Park Lease and Amendments to Related Agreements with the San Francisco Giants**Department:** Recreation and Park Department

Items: File 65-92-15: Ordinance approving a lease amendment entered into by the Recreation and Park Commission and the San Francisco Giants, which reduces the City's revenues from rent, utilities and maintenance of the playing field through the year 1997 and assigns the right to revenues from the Sony Scoreboard Agreement to the San Francisco Giants during the term of the lease.

File 65-92-16: Resolution approving a new agreement between the Recreation and Park Commission and the San Francisco Giants granting all rights to revenues to the Giants from video advertising on the Sony Scoreboard at Candlestick Park during the baseball season.

File 65-92-17: Resolution approving an amendment to the agreement to furnish a scoreboard between the Recreation and Park Commission and the Sony Corporation which enables the City to expand its use of non-video advertising at Candlestick. Revenues from the expanded advertising will be transferred to the Giants.

File 65-92-18: Resolution approving an amendment to the Scoreboard Operating Agreement between the Recreation and Park Commission and Giants, whereby the City will assign its rights to an operating fee from Sony to the Giants. Presently, Sony pays such fees to the City. In return, the Giants will assume the obligation and associated costs of operating the scoreboard year-round.

65-92-19: Resolution approving an amendment to the Candlestick Park Parking Lot Agreement between the Recreation and Park Commission and the Giants, which designates the Giants as exclusive operators of the parking lot during baseball season and transfers receipt of the parking revenues from the City to the Giants. Presently the City keeps 97.5 percent of the net parking revenues.

Description:

File 65-92-15

The proposed ordinance would amend the City's lease agreement with the Giants which would result in a five-year lease agreement between the City and the Giants which would:

1. Reduce the Giants annual rent payable in FY 1992-93 from five percent of paid admissions or a minimum of \$125,000 annually, whichever is higher, to \$1.
2. Require the City to pay electricity, gas, water and sewer utilities for the Giants. Currently the Giants are responsible for paying electricity, gas, water and sewer which cost approximately \$466,552 in FY 1991-92.
3. Require the City to provide all field maintenance services including game day upkeep activities which the Recreation and Park Department estimates will cost \$36,000 annually. Presently, the Giants reimburse the City approximately \$26,000 annually for maintenance services. In addition, the Giants have a full time groundskeeper and the Giants are responsible for game day maintenance.
4. Require the City to replace light bulbs at no charge to the Giants which would have an annual cost of \$20,000. Presently, the City replaces the lightbulbs and invoices the Giants for the costs associated with the Giants' use of the lights.

5. Provide the Giants with cancellation provisions at the end of each calendar year of the five-year lease with a 120 days notice of the Giants intent to cancel the lease. In addition, this 120 days notice would allow the City time to find new investors to keep the Giants in the City. Currently, under certain circumstances, the Giants may convert their lease to a year-to-year lease and terminate it for the next season if notice is given by December 31.

6. Direct Sony to pay the Giants all payments due to the City under the Sony Agreement. Currently, the City receives all payments from Sony.

File 65-92-16

The proposed resolution would approve an agreement between the Recreation and Park Commission and the Giants which would grant the Giants all rights to revenues from video and commercial advertising on the Sony Scoreboard at Candlestick Park during baseball season. Presently, there is no agreement between the Giants and the City to permit the Giants to sell video and commercial advertising on the Sony Scoreboard and the Giants do not currently sell such advertising. Thus, the City does not currently receive revenue from video and commercial advertising on the Sony Scoreboard from the Giants. However, the City and the 49ers have recently entered into an agreement to permit the 49ers to sell video and commercial advertising on the Sony Scoreboard where the City receives 50 percent of the net revenues from commercial advertising.

File 65-92-17

The proposed resolution would approve an amendment to the agreement to furnish a scoreboard between the Recreation and Park Commission and the Sony Corporation which would enable the City to expand its use of non-video advertising at Candlestick Park. Specifically, the proposed amendment would allow additional advertising in front of luxury suites, advertising at the entrance gates, advertising in the restrooms and advertising on the seatbacks. Under the proposed amendment, as with the Sony Scoreboard Agreement, all advertising is subject to the approval of the Recreation and Park Commission.

Currently, the Sony Corporation has exclusive rights to advertise in Candlestick Park. According to Mr. Phil Arnold, the Recreation and Park Commission approved an expansion to the advertising program at Candlestick Park to improve the appearance of Candlestick Park and to increase advertising revenue. However, 100 percent of the advertising

revenue from the expanded advertising program would accrue to the Giants. Based on the City's agreement with Sony where the City receives 65 percent of average advertising revenues beyond \$1 million, Mr. Arnold estimates the Giants could receive approximately an additional \$150,000 to \$200,000 annually from the proposed expansion of the advertising program. This additional revenue would be a new source of revenue, 100 percent of which would accrue exclusively to the Giants.

File 65-92-18

The proposed resolution would approve an amendment to the Scoreboard Operating Agreement between the Recreation and Park Commission and the Giants which would assign the City's rights to an operating fee from Sony to the Giants. This operating fee is presently paid by Sony to the City. The Giants currently operate the Sony Scoreboard. Under the current agreement, the Sony Corporation pays the City a base payment of \$222,108 to defray the cost of operating the Sony Scoreboard. In addition, Sony pays the City an overage payment of 65 percent of all average net advertising revenue to the extent that the average net advertising revenue exceeds \$1 million. In FY 1991-92, the City received \$221,892 in overage payments from Sony for a total of \$444,000 in revenue from the Sony Scoreboard. The City pays the Giants approximately \$300,000 annually to operate the scoreboard. Under the proposed lease amendment (File 65-92-15), 100 percent of all revenues from the Sony Scoreboard from Giants games would be paid to the Giants and the City would receive no revenues from this source and would make no payments to the Giants.

File 65-92-19

The proposed resolution would approve an amendment to the parking lot agreement between the Recreation and Park Commission and the Giants, which designates the Giants as the exclusive operators of the parking lot during baseball season. The City presently receives 97.5 percent of net parking revenues. In FY 1991-92, the City collected \$1,327,542 from operating the Candlestick Park parking lot during baseball season.

In addition to these items which would approve amendments to the Giants' Candlestick lease and the Sony Scoreboard Agreement, the Board of Supervisors has requested the Budget Analyst to respond to 11 questions related to the amendments to the Giants' Candlestick lease. The following is the Budget Analyst's responses to these 11 questions:

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1. Provide a listing of revenues that the Giants are paying now by specific revenue sources.

FY 1991-92

<u>Actual Revenues</u>	<u>Amount</u>	
Candlestick Park Fund		
Rent	\$973,275	1
Parking	1,052,932	
Preferred Parking	258,610	
Total	\$2,284,817	2
General Fund		
Payroll Taxes	232,000	
Parking Taxes	388,000	
Possessory Interest Tax	30,000	
Sports Tax (transferred to SFUSD)	528,000	
Total	\$1,178,000	

2. List total expenditures presently being paid by the Giants which will have to be paid by the City as a result of these proposals.

<u>Item (FY 1991-92)</u>	<u>Amount</u>	
Utilities	\$466,552	3
Field Maintenance	36,000	4
Replace Light Bulbs	20,000	
Police Security	250,000	5
Total	\$772,552	

¹The Giants actually paid the City \$729,282 in FY 1991-92, though the Giants rent was \$973,275. The difference of \$243,993 represents the amount which the Giants withheld to reimburse the Giants for the Sony Scoreboard operation.

²Excludes \$16,000 from Candlestick Parking Services.

³The Controller's records indicate \$230,227 received from the Giants for utilities in FY 1991-92. However, because the Giants paid for utilities after July 1, 1992, the Giants actually reimbursed the Department \$404,502 in FY 1991-92 for gas and electric and paid the Water Department \$62,050 for water and sewer.

⁴Includes \$26,000 the Giants currently reimburse the City for maintenance expenses plus additional game day upkeep expenses that the Giants currently assume which the Recreation and Park Department estimates would cost \$10,000. It is unclear whether the Recreation and Park Department would be required to fund a full-time groundskeeper that the Giants currently provide.

⁵The Mayor's Office reports that, under the proposed lease amendment, the Giants would continue to reimburse the Police Department at the current level of approximately \$250,000 annually. However, the reimbursement arrangement is not specified in the proposed lease. See Comment 2.

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3. What are the present tax revenues allocated to Candlestick Park? ⁶

<u>Tax</u>	<u>Amount</u>	
Admission Tax (Giants)	\$740,000	⁷
Admission Tax (49ers)	523,283	
Hotel Tax	<u>3,389,151</u>	
Total	\$4,652,434	

4. What will be the effect of the proposed lease amendments on the City's General Fund?

The \$250,000 which the Giants currently reimburse the City for Police overtime would become a General Fund expenditure. In addition, the proposed lease concessions would reduce the revenues from the Candlestick Park Fund by approximately \$3 million annually and by approximately \$1.5 million in FY 1992-93. Although not included in the proposed lease concessions, the Candlestick Park Fund could be reduced by \$2.2 million in 1992-93 if the Giants receive an exemption to the Stadium Admission Tax (see Question No. 5 below). According to Ms. Mary Burns, General Manager of the Recreation and Park Department, if the Candlestick Park Fund does not receive funding from another source, the Department would have to postpone capital improvement projects at Candlestick Park. In FY 1992-93, the Candlestick Park Fund is budgeted at \$14,193,692 of which \$3.5 million would be used to fund capital improvement projects. According to Mr. Arnold, the Mayor's Office is requesting the Recreation and Park Department to proceed with the Candlestick Park capital improvement projects, including the additional seats to be constructed for use at 49er games. If the proposed lease amendments are approved, the necessary revenues will not exist to fund these capital projects. In FY 1992-93, the Department included \$3,469,000 as a revenue transfer from the Candlestick Park Fund to the General Fund. Thus, the Department's transfer to the General Fund will have to be reduced by \$1.5 million to fund the Candlestick Park capital improvements in FY 1992-93. Because the City's FY 1992-93 General Fund budget was balanced based in part on the Candlestick Park Fund transfer of \$3,469,000, reducing the Candlestick Park Fund transfer by \$1.5 million in FY 1992-93 will require a reduction to the City's General

⁶This does not include the Schools Sports Tax of \$.25 on Giants' tickets to fund the After School Sports Program in the approximate amount of \$528,000 (see Question No. 11 below).

⁷Because the Board of Supervisors decided to discontinue the Giants exemption to the Admission Tax, the Department included \$740,000 in revenues from the Giants Admission Tax in its FY 1992-93 budget. See Question No. 5 below.

Fund of \$1.5 million in order to keep the City's FY 1992-93 budget balanced, without reducing current General Fund reserves.

5. Will the legislation passed this year repealing the Giants' exemption from the Stadium Admission Tax be effected by the Mayor's proposal?

The proposed lease amendment does not directly provide the Giants with an exemption from the Stadium Admission Tax. However, according to the Mayor's Office, although the it was the Board of Supervisors intent to not grant the Giants an exemption to the Stadium Admission Tax for the 1993 baseball season, the Mayor intends to request a continuation of the exemption on Giants tickets from the Stadium Operator Admission Tax for the remaining years of the Giants' lease. The Recreation and Park Department did include an additional \$700,000 in revenue from the Giants Stadium Admission Tax in the Department's FY 1992-93 budget. Thus, although not included in the proposed lease amendment, the proposed exemption from the Stadium Admission Tax would result in reduced revenues of \$700,000 annually to the Candlestick Park Fund. If the expenditures are to remain the same at Candlestick Park as have been budgeted in FY 1992-93, then this \$700,000 revenue reduction would require an additional reduction in the Candlestick Park Fund revenue transfer to the General Fund in FY 1992-93. This would require the City to reduce General Fund expenditures in FY 1992-93 by an additional \$700,000 to balance the City's General Fund budget without reducing current General Fund reserves.

6. Are the 49ers requesting any similar revenue breaks or lease concessions of a comparable nature?

Mr. Carmen Policy, President of the 49ers, advised the Budget Analyst that the 49ers are non-committal on whether the 49ers will be asking for similar revenue breaks or lease concessions of a comparable nature which the Giants are requesting. Mr. Policy also stated that the 49ers have consistently tried to not create any problem for the City in the City's negotiations to keep the Giants in San Francisco. Further, Mr. Policy expressed strong concerns regarding the City's obligations to maintain Candlestick Park. (see Question No. 8 below)

7. Does the Mayor propose to forgive the 49ers of any rental concessions or other revenues or changes in expenditures at Candlestick Park?

According to Mr. Ron Blatman of the Mayor's Office, the answer to this question is "no."

8. If additional costs are to be made up by deferring 49ers improvements, how much, what for, and what is the position of the 49ers?

The Mayor's Office reports that in FY 1992-93 the proposed \$1.5 million in revenue and expenditure concessions to the Giants (approximately \$3 million annually) would not be taken out of the Candlestick Park Improvement Fund which in FY 1992-93 is budgeted at \$3.5 million. However, Mr. Arnold of the Recreation and Park Department advised the Budget Analyst that if another source of funds does not replace the approximately \$3 million, the Recreation and Park Department would have to postpone or cancel capital improvement projects. Ms. Burns advised that the Department's leases with the Giants and the 49ers require the Department to adequately maintain Candlestick Park and continue with capital projects. In FY 1992-93, the Department intended to use the \$3.5 million to build additional seats and to widen the Stadium concourse. However, as previously noted in Question No. 4 above, Mr. Arnold reports that the Mayor's Office has requested the Recreation and Park Department to proceed with the \$3.5 million for capital improvement projects. Mr. Arnold was unable to identify the source of the \$1.5 million required to pay for the projects given the proposed concessions to the Giants in FY 1992-93.

If the City intends to give revenue and expenditure concessions to the Giants in an average amount of approximately \$3 million annually for the five year term of the lease, and including approximately \$1.5 million in FY 1992-93, then in order for Candlestick Park capital improvements to be completed, such improvements would most likely require additional General Fund monies of approximately \$1.5 million in FY 1992-93 and an average of approximately \$1.75 million each year thereafter for five years. A direct response to this point in order to specifically clarify this matter should be obtained in writing from the Mayor's Office by the Finance Committee.

According to Mr. Policy, the 49ers intend to work with the Giants and the Recreation and Park Department to ensure that all necessary maintenance and capital improvements are completed at Candlestick Park. However, Mr. Policy advised the Budget Analyst's Office that the 49ers are concerned that maintenance and capital improvements at Candlestick Park will be postponed or canceled because of the proposed concessions to the Giants.

The 49ers lease with the City includes a provision that if Candlestick Park has not been maintained in a condition suitable for major league professional football games or if the stadium has become structurally unsafe and if the City does not correct the conditions, subject to an arbitrator's decision, the 49ers may terminate their lease at Candlestick Park on May 31, 2000. The 49ers lease will expire in 2008 with three more five year options available.

9. How many years are left on the Candlestick bonds and what is the amortization schedule?

According to Ms. Etai Chen of the Recreation and Park Department, the Candlestick bonds currently have a principal balance of approximately \$9,915,000 which will expire on November 1, 1999. According to Mr. Arnold, the City is required to pay \$1,925,000 a year through 1999.

10. What alternative revenues may be received from other events at Candlestick Park if the Giants left?

According to Mr. Arnold, if the Giants left Candlestick Park there would be 150 dates open for other events from April through September. 40 of these 150 dates would be weekend dates. The revenue the City could receive from other events would depend on the events, the attendees and the rental agreements between the City and the event holders.

Historically, the Department has been able to produce less than \$100,000 annually from outside events at Candlestick Park. However, the Department has also not had as many open dates before as would be available if the Giants leave San Francisco. Mr. Arnold estimates that for the first year, the Department could probably realize \$150,000 from other stadium events which would increase to approximately \$300,000 in the following year as the Department implements an active marketing program for other stadium events.

The Department reports that, although not numerous, other applicants for Candlestick Park have been turned down in favor of the Giants use of the stadium. One potential tenant for 1994 was the World Cup Soccer Cup Championship. The Budget Analyst reported in January of 1991 that the World Soccer Cup Championship lease would have had a direct City revenue benefit of between \$5 million and \$11 million. While such revenues may not have been allocated to Candlestick Park, such revenues would have directly benefited the City.

11. How much money would the City lose if the Giants left San Francisco?

As noted in the following tables, if the Giants were to move out of town, the City's General Fund would lose approximately \$209,000 annually and the Candlestick Park Fund would lose approximately \$1,778,290 annually. Thus, overall the City would lose approximately \$1,987,290 annually if the Giants were to leave San Francisco. It should be noted that the proposed lease and related agreement amendments would cost the City approximately \$3,142,269 annually to the General Fund and the Candlestick Park Fund (see Comment 9 below).

General Fund Losses if the Giants Leave⁸

Payroll Taxes	
Direct	(\$232,000)
Indirect	(214,000)
Sales Taxes	
Direct	(\$193,000)
Indirect	(139,000)
Parking Taxes	(388,000)
Possessory Interest Tax	(30,000)
Sports Tax	(528,000) ⁹
Police Reimbursement	<u>(250,000)</u>
Subtotal General Fund Losses	(\$1,974,000)

⁸Direct tax revenue refers to tax revenues received from the Giants payroll and sales taxes generated at Giants events. Indirect taxes refers to the multiplier effect of the Giants payroll and other Giants expenditures on the City's economy and the tax revenue received from that multiplier effect. These estimates were developed by the Mayor's Office and, as discussed in Comment #8 below, these estimates are more reflective of the Bay Area economy than San Francisco's economy.

⁹According to the Controller's Office, the \$528,000 Sports Tax revenue is included in the Proposition J Children's Fund which would have to be funded by the General Fund if the Giants left San Francisco.

General Fund Expenditures Saved if the Giants Leave

Police (internal and external security services)	\$1,275,000	
Muni Subsidy	<u>490,000</u>	
Subtotal Expenditures Saved		<u>\$1,765,000</u>

Estimated Losses to General Fund If Giants Leave (\$209,000)

Candlestick Park Fund Losses if the Giants Leave

Candlestick Rent	(\$973,275)	
Parking Revenues	(1,327,542)	
Sony Scoreboard	(179,000)	
Utilities	(404,502)	
Maintenance Reimbursement	<u>(26,000)</u>	
Subtotal Candlestick Park Fund Losses		<u>(\$2,910,319)</u>

Candlestick Park Fund Expenditures Saved if the Giants Leave

1 Stationary Engineer	\$60,000	
2 Gardeners (6 months each)	29,527	
Contractual Services	100,000	
Materials and Supplies	88,000	
Utilities (Gas and electric)	404,502	
Misc.	100,000	
Scoreboard Operating Costs	100,000	
Facility Maintenance (conversion)	<u>100,000</u>	
Subtotal Expenditures Saved		<u>\$982,029</u>

Estimated Additional Revenues from Stadium Events if the Giants Leave

First Year	<u>\$150,000</u>	
Subtotal Additional Revenues Gained First Year		<u>\$150,000</u>
Second Year	\$300,000	

Estimated Loss to the Candlestick Park Fund if the Giants Leave (\$1,778,290)

Comments:

1. According to Mr. Arnold, the proposed resolution (File 65-92-17) approving an amendment to the agreement to furnish a scoreboard between the Recreation and Park Department and the Sony Corporation which enables the City to expand its use of non-video advertising at Candlestick would require retroactive approval. Mr. Arnold reports that as of March, 1991, the City began expanding its use of non-video advertising at Candlestick Park. As such, the proposed resolution (File 65-92-17) should be amended to approve the amendment to the agreement retroactively.

2. Section 14 of the current lease stipulates that the City will provide an adequate number of uniformed Police for patrolling in the stadium and in the stands to maintain law and order during and immediately prior and subsequent to each baseball game. The City provides an average of 12 Police Officers to patrol the stadium during baseball games. The Giants currently reimburse the Police Department for the hourly rates of the Police Officers plus 22.5 percent for overhead. In FY 1991-92, the Giants reimbursed the Police Department \$250,000. According to the Police Department, the actual cost for these services was \$277,325 because the City is required to pay uniformed Police Officers time and a half. According to the Mayor's Office, under the proposed lease amendment, the Giants would continue to reimburse the Police Department for these 12 Police Officers at an estimated annual cost of \$250,000. However, the proposed lease amendment does not stipulate that the Giants will continue to reimburse the Police Department for these services. According to the Police Department, the Giants have been reimbursing the City as a matter of good faith and not through an agreement. As such, until the proposed lease or another agreement between the City and the Giants stipulates the Giants will reimburse the City for these internal security services, the Budget Analyst is interpreting the lease as requiring the City to assume the security costs. Thus, the Budget Analyst recommends that the proposed lease amendment be further amended to require the Giants to reimburse the City for internal security services.

In addition to the internal security services provided by the Police Department, the City provides traffic control and other security services outside Candlestick Park before and after the baseball games at no charge to the Giants. The Police Department estimates that these external security services cost the City approximately \$1 million annually. The proposed lease amendments do not change this practice.

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Additionally, the Giants have not been satisfied with the level of Police coverage at the baseball games and have augmented it with their own security services. In calendar year 1991, according to Mr. John Yee of the Giants, the Giants spent approximately \$556,000 on their own internal security services. This \$556,000 includes non-game security, but Mr. Yee advises that the majority is for game-related security services. In the past, the Giants have argued that the lease requires the City to provide all of the security services including those that the Giants currently provides.

Mr. Jim Lazarus of the Mayor's Office reports that, under the proposed lease amendments, the City will continue to provide the same number of Police Officers and the Giants will continue to provide the same level of internal security. Because of the misunderstandings in the past regarding the provision of uniformed Police Officers, Section 14 of the proposed lease amendment (File 65-92-15) should be amended to clarify the City's responsibility and the Giants' responsibility to provide security during baseball games and the amount the Giants would be responsible for reimbursing the City for such security services.

3. Section 3 of the current Parking Lot Agreement outlines the responsibilities of the Giants to operate the parking lot including the payment to the Giants for such operation and the retention by the Recreation and Park Department of the net parking receipts. Under the proposed amendment to the Parking Lot Agreement (File 65-92-19) Section 3 was deleted in its entirety and replaced with language which names the Giants as the exclusive operator of the parking lot. However, the proposed amendment to the Parking Lot Agreement does not indicate who shall receive the revenues from the parking lot operation. The intent of the Mayor's Office is to permit the Giants to retain all of the parking lot receipts. The proposed amendment to the Parking Lot Agreement should be amended to specifically indicate who shall receive the revenues from the parking lot. According to Mr. Lazarus, the City Attorney has already included this amendment. However, as of the writing of this report, copies of this amendment have not been provided to the Budget Analyst.

4. The proposed amendment to the Parking Lot Agreement includes language in Section 3 which states, "...the City shall not be responsible for any expenses arising from the Giants actions taken pursuant to this agreement." The proposed amendment to the Scoreboard Operating Agreement (File 65-92-18) does not include similar language. As a result, the City could be held responsible for expenses incurred by the Giants

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while operating the scoreboard. Because it was the intent of the Mayor's Office to require the Giants to assume all the costs associated with operating the scoreboard, the proposed amendment to the Scoreboard Operating Agreement (File 65-92-18) should be amended to include the following statement, "The City shall not be responsible for any expenses arising from the Giants actions taken pursuant to this agreement."

5. In December of 1985, the Board of Supervisors approved a stadium agreement between the City and the 49ers that provided for the construction of luxury boxes and other major improvements to the stadium over a seven year period. The original cost estimate for these improvements was approximately \$28 million. In addition to annual revenues from the Candlestick Park Fund, additional funding for these improvements has come from the following sources:

- Approximately \$2.9 million in advance rental deposits from the 49ers.
- A \$1.00 surcharge to the base ticket price of 49ers tickets commencing with the 1986 season and continued each year thereafter until the conclusion of the 1992 season. Revenue from the \$1.00 surcharge has been approximately \$638,000 per year.

According to Mr. Norman Karasick of the Department of Public Works (DPW), the City has completed 55 capital improvement projects at Candlestick Park since 1982 at an approximate total cost of \$32,718,555 or approximately \$4,718,555 in excess of the original cost estimate of \$28 million. As previously noted, in sometime FY 1992-93, it is anticipated that DPW will be expanding the seating at Candlestick Park.

6. As noted above, the \$1.00 surcharge on 49ers tickets will cease after the 1992 season. As a result, the Candlestick Park Fund will receive a decreased revenue of approximately \$638,000 beginning in FY 1993-94. In addition starting in FY 1994-95, the City will receive 15 percent of gross revenues from the rental of all but five luxury boxes instead of 20 percent as the City is currently receiving. This decrease will result in an additional reduction of approximately \$190,268 in Candlestick Park Fund revenues beginning in FY 1994-95.

Further, in January of 1993, the 49ers will have the option to assume and operate the food and beverage concessions with the City receiving 15 percent of gross revenues. Currently, the City operates the food and beverage concessions through a

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contract with a private vendor. The City received approximately \$729,282 in FY 1991-92 from the food and beverage concessions based on 24.8 percent of gross receipts (to be reduced to 15 percent for 1993-94). Based on per capita food and beverage expenditures at Candlestick Park of \$4.75 per person and a total attendance of 640,146 in FY 1991-92, the total concession revenue during 49ers games would be approximately \$3,040,693. 15 percent of \$3,040,693 is \$456,104. Thus, the Candlestick Park Fund could lose an additional \$273,178 in revenue beginning FY 1993-94 (\$729,282 minus \$456,104).

Finally, in FY 1993-94, the City will start paying the 49ers \$400,000 annually from the Candlestick Park Fund to repay the 49ers for advance rental deposit payments used to fund construction of luxury boxes.

As a result of the 49ers lease, the Candlestick Park Fund will be realizing additional reductions of approximately \$1,311,178 beginning in FY 1993-94 and \$1,501,446 beginning in FY 1994-95. In addition, it is not anticipated that the Candlestick Park Fund will end up with a surplus of \$1.8 million to fund the FY 1993-94 budget as was available to fund the FY 1992-93 budget.

Coupled with the proposed estimated lease concessions to the Giants in excess of \$3.1 million annually, and based on the current Candlestick Park budget of \$14,193,692, the Budget Analyst concludes that the Recreation and Park Department will not be able to fund Candlestick Park operating expenses and capital improvements at present levels, without requiring a General Fund subsidy.

7. According to the Mayor's Office, the intent of providing the proposed lease concessions to the Giants is to assist the new ownership group in minimizing the Giants' operational losses. The Budget Analyst contacted the Mayor's Office requesting access to the Giants financial records to independently evaluate the Giants losses. As of the writing of this report, the Mayor's Office has not provided the Budget Analyst with any financial records of the Giants.

The Budget Analyst believes that, besides the consideration of operational losses, the potential tax advantages and the potential capital gain on the sale of a baseball franchise should also be considered in evaluating an investment in the Giants. These factors can potentially offset impacts on operating losses.

Although we do not consider a review of the Giants' books and records to be essential to the Board of Supervisors at this time prior to approving the proposed lease amendments, the Budget Analyst strongly believes that the City should have complete access to the Giants' financial records on an annual basis in order to evaluate the necessity for future lease concessions to the Giants as well as to evaluate the potential for the Giants to repay the City for the lease concessions being proposed under the lease amendments. The Budget Analyst believes that if the City is to provide the Giants with approximately \$3,142,269 in annual lease concessions, then the City should secure an agreement from the Giants to begin paying on a current basis for the concessions to the City, which the Mayor's Office has proposed, when the Giants are breaking even and to repay the City when the Giants are making a profit.

The definitions of and methodology used to determine "breaking even" and "making a profit" should be established jointly by the Controller's Office and the Giants and such definitions should be included in the proposed lease amendments.

8. The Indirect Impact of the Giants on San Francisco's Economy

The Mayor's Office has developed an estimate that if the Giants were to leave San Francisco, the City's economy would suffer an estimated loss of \$27,895,680 annually. The Mayor's Office's estimate is based on the economic impact of the Giants' players' and nonplayers' payroll for all home games. The Mayor's Office estimated that of this \$27.9 million amount, an estimated \$17.3 million is attributable to the spending of 50 percent of the Giants players' payroll and the related multiplier effect.

Because only one of the Giants' players reportedly lives in San Francisco, the Budget Analyst concludes that the estimate by the Mayor's Office regarding the economic impact on San Francisco itself is an inflated measure of the economic impact. Rather, because the majority of the Giants' players live in the Bay Area during the baseball season, the entire Bay Area would suffer the \$27.9 million economic loss as estimated by the Mayor's Office, if the Giants were to leave San Francisco. We concur that because San Francisco is part of the Bay Area, San Francisco would share in some of that loss.

9. Summary of Direct Impact on the City from the Proposed Lease Amendments

As noted in the table below, as a result of the proposed lease amendments, the Candlestick Park Fund would realize a net annual loss of approximately \$2,892,269, the General Fund would realize a net loss of \$250,000, thereby resulting in a total loss of \$3,142,269 annually. As previously noted, if the Giants were to leave San Francisco, the City would lose approximately \$1,987,290 annually. In addition, although not presently included as a revenue to the Candlestick Park Fund, the Giants would receive an additional \$150,000 to \$200,000 in revenue from non-video advertising (File 65-92-17) that the City would not receive.

Candlestick Park Fund Losses

Rent	(\$973,275)	
Parking Revenues	(1,327,542)	
Sony Scoreboard	(179,000)	
Utilities	(404,502)	
Maintenance Reimbursement	(26,000)	
Subtotal Revenue Reductions		(\$2,910,319)

Candlestick Park Fund Expenditure Changes

Water & Sewer	(\$62,050)	
Field Maintenance	(36,000)	
Light Bulbs	(20,000)	
Scoreboard Operating Costs	100,000	
Net Expenditure Reductions		\$18,050

Net Loss to the Candlestick Park Fund (\$2,892,269)

General Fund Expenditure Increases

Police Security (see Comment 2) (\$250,000)

Net Annual Loss to the City (\$3,142,269)

Therefore, based on FY 1991-92 data, the total proposed estimated concessions which the City would provide to the Giants over the five-year lease period at Candlestick Park is \$15,711,345. However, it should be noted that this amount could increase or decrease depending on such factors as attendance levels and inflation.

10. As previously noted, the Budget Analyst concludes that, if the proposed lease and related agreements are approved, the Recreation and Park Department will not be able to fund Candlestick Park operating expenses and capital improvements at present levels, without reducing or

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eliminating the transfer from the Candlestick Park Fund to the General Fund. This would require the City to reduce General Fund expenditures in FY 1992-93 by an additional \$1.5 million to balance the City's General Fund budget without reducing current General Fund reserves. In future years, the General Fund may be required to provide a direct subsidy.

Overall Conclusion of the Budget Analyst: The Budget Analyst believes that it is in the best interests of the City and County of San Francisco for the San Francisco Giants to remain in San Francisco. The concessions, as proposed by the Mayor to the Giants' investors, would provide a subsidy to the Giants to help the new ownership group through difficult financial times. However, the proposed concessions would also subsidize the Giants during potentially profitable times. Therefore, the Budget Analyst concludes, that unless the proposed concessions are amended in accordance with the recommendations of the Budget Analyst, the amendments as proposed by the Mayor are not in the best financial interests of the City and County of San Francisco. The Budget Analyst's recommended amendments would allow the City to benefit, together with the Giants, if and when the Giants achieve an improved financial condition.

If the Board of Supervisors concurs with any of the following recommendations made by the Budget Analyst, these recommendations would be subject to final ratification by the Recreation and Park Commission.

Recommendations: If the Board of Supervisors decides to approve the proposed lease and agreement amendments, the Budget Analyst recommends that the leases and agreements should be further amended as follows:

1. Amend all of the proposed lease and agreement amendments to:
 - a. As soon as the Giants break even, require the Giants to begin paying on a current basis for the concessions to be granted under the proposed lease amendments namely rent, utilities, field maintenance, light bulbs, and Police security and transfer the parking lot operation and Sony scoreboard back to the City. (According to Mr. Lazarus, the Mayor's Office made a similar recommendation to require the Giants to begin paying on a current basis for the concessions to be granted under the proposed lease amendments. That recommendation was rejected by the Giants, according to Mr. Lazarus. However, Mr.

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Lazarus acknowledged that the Mayor's Office did not make similar recommendations as the Budget Analyst has made in recommendation Nos. 1b., 1c., and 1d. below.)

- b. As soon as the Giants are making a profit, require the Giants to begin paying back the City for the concessions previously granted to the Giants for rent, utilities, field maintenance, light bulbs, and Police security and lost revenue from the parking lot operation and Sony scoreboard.
- c. If the new owners sell the Giants at a profit in excess of the concessions granted by the City, require the Giants to fully repay the City for the concessions for rent, utilities, field maintenance, light bulbs, and Police security and lost revenue from the parking lot operation and Sony scoreboard; and
- d. Require the Giants to annually provide the Controller's Office with complete access, on a confidential basis, to the Giants' financial books and records in order to independently evaluate the financial status of the Giants for the purpose of repaying the City for the concessions granted under the proposed lease amendments in accordance with the criteria described in Recommendations a. through c. above.

2. Amend Section 14 (File 65-92-15) to clarify the City's responsibility and the Giants' responsibility to provide security services during Giants games and to require the Giants to reimburse the City for the provision of internal security services as described in Comment 2 above in order to insure that no additional security costs will be borne by the City.

3. Amend all of the proposed lease amendments to require the Controller's Office and the Giants to jointly develop the definitions of and methodology used to determine "breaking even" and "making a profit" with respect to the operations of the Giants. These definitions should then be included in the proposed lease and agreement amendments.

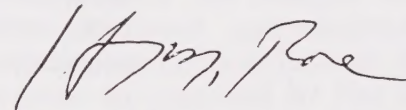
4. Amend Section 3 of the Parking Lot Agreement (File 65-92-19) to specifically indicate who shall receive the revenues from the parking lot as described in Comment 3 above. As previously noted, presently the Giants pay the City 97.5 percent of the net parking revenues. The intent of the Mayor's proposed lease amendment is for the Giants to keep 100 percent of such revenues with none of these revenues accruing to the City.

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5. Amend the Scoreboard Operating Agreement (File 65-92-18) to include the following language "The City shall not be responsible for any expenses arising from the Giants actions taken pursuant to this agreement" as described in Comment 4 above.

6. Amend File 65-92-17 to authorize the City to expand its use of non-video advertising at Candlestick Park retroactively as described in Comment 1 above.

7. In addition to the Budget Analyst's recommendations to amend the proposed lease and agreement amendments, the Budget Analyst recommends that the Finance Committee request the Mayor's Office to advise the Finance Committee in writing as to the source of the funding for the anticipated FY 1992-93 Candlestick Park capital improvement projects (see Question No. 8 above).



Harvey M. Rose

cc: President Shelley
Supervisor Achtenberg
Supervisor Alioto
Supervisor Britt
Supervisor Conroy
Supervisor Gonzalez
Supervisor Hallinan
Supervisor Hsieh
Supervisor Kennedy
Supervisor Maher
Supervisor Migden
Clerk of the Board
Mayor Jordan

Jim Lazarus
Mary Burns
Chief Administrative Officer
Controller
Jean Mariani
Barbara Kolesar
Ted Lakey